

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 OIC-04 L-03 AID-20 CEA-02 CIAE-00

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R 071115Z JUN 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 2927

UNCLAS SECTION 01 OF 02 OECD PARIS 13819

E.O. 11652: N/A

TAGS: AORG, OECD

SUBJECT: OECD PENSION SCHEME

REF: OECD PARIS 13420

1. SECRETARY-GENERAL PLANS TO APPEAL TO HEADS OF DELEGATION AT MEETING OF JUNE 11 FOR EARLY AND FAVORABLE RESOLUTION ON ISSUE OF ADJUSTMENT OF PENSIONS TO REMOVE INJUSTICE CAUSED BY CALCULATING TAXABLE PENSIONS ON BASIS OF TAX-EXEMPT SALARIES. SECRETARY-GENERAL CONCERNED OVER SLOW PACE CCG DISCUSSIONS AND FEARFUL THAT APPROPRIATE SOLUTION NOT BE REACHED IN NEAR FUTURE BY CCG. REQUEST DETAILED INSTRUCTIONS REFTEL PRIOR HEADS OF DELEGATION DISCUSSIONS.

2. TEXT OF SECRETARY-GENERAL'S LETTER TO ALL HEADS OF DELEGATION QUOTED BELOW:

"THE COUNCILS OF THE CO-ORDINATED ORGANISATIONS HAVE INVITED THE CO-ORDINATING COMMITTEE OF GOVERNMENT BUDGET EXPERTS TO CONSIDER WHAT SOLUTION SHOULD BE RETAINED AS REGARDS THE PROVISIONS TO APPLY TO THE
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PENSION SCHEME CONCERNING TAXATION.

"THIS EXAMINATION IS NOW TAKING PLACE WITHIN THE CO-ORDINATING COMMITTEE WHICH HAS REACHED THE CONCLUSION THAT AS A MATTER OF PRINCIPLE PENSIONS SHOULD NOT BE EXEMPT FROM NATIONAL TAXATION.

"THE COMMITTEE IS, HOWEVER, AWARE THAT THIS RAISES A FUNDAMENTAL PROBLEM, AS PENSIONS HAVE BEEN FIXED IN THEIR 94TH REPORT (C(74)15) AS A PERCENTAGE OF SALARIES WHICH ARE THEMSELVES NOT SUBJECT TO NATIONAL TAX AND ARE THEREFORE AT A LOWER LEVEL THAN THEY OTHERWISE WOULD BE. FURTHER IT HAS GENERALLY BEEN AGREED THAT THE BENEFITS PROVIDED BY THE PROPOSED PENSION SCHEME SHOULD BE COMPARABLE WITH THOSE ENJOYED BY THE EUROPEAN COMMUNITIES' STAFF AND, AS DETAILED STUDIES HAVE SHOWN, THIS AIM WOULD BE VERY FAR FROM BEING ATTAINED IF THE PENSIONS PAID BY THE CO-ORDINATED ORGANISATIONS WERE TAXED.

"A LARGE MAJORITY OF THE CO-ORDINATING COMMITTEE HAVE THEREFORE RECOGNISED THAT SOME CORRECTIVE MEASURES SHOULD BE TAKEN IN ORDER TO REMEDY THIS SITUATION AND THEY ENVISAGE A SYSTEM WHICH WOULD CONSIST IN GROSSING UP PENSIONS TO TAKE ACCOUNT OF TAX LEVIED BY THE NATIONAL TAX AUTHORITIES. THIS SYSTEM IS NOW UNDER CONSIDERATION, BUT FROM THE FIRST DISCUSSIONS THE REPRESENTATIVES OF THE SECRETARIES GENERAL HAVE GATHERED THE IMPRESSION THAT SOME COUNTRIES ENVISAGED ONLY PARTIAL COMPENSATION.

"I WOULD LIKE IN THE MEANTIME TO INFORM HEADS OF DELEGATIONS OF THE SECRETARIES-GENERAL'S POSITION IN THIS MATTER: WE CONSIDER THAT THE SIMPLEST AND FAIREST SOLUTION WOULD BE TO EXEMPT PENSIONS FROM NATIONAL TAXATION, IN THE SAME WAY AS SALARIES. SALARIES IN THE ORGANISATIONS ARE ADJUSTED DOWNWARDS TO TAKE TAX EXEMPTION INTO ACCOUNT. IF PENSIONS WERE TO BE TAXED, IT WOULD ONLY BE EQUITABLE TO ADJUST THE BASIS ON WHICH THE PENSIONS ARE CALCULATED TO ACHIEVE COMPARABILITY WITH THOSE ENJOYED BY INDIVIDUALS IN LIKE CIRCUMSTANCES

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IN OTHER ADMINISTRATIONS. I ATTACH ILLUSTRATIVE CASES IN SUPPORT OF THIS POSITION.

"WITH THIS IN MIND THE SECRETARIES-GENERAL HAVE PUT FORWARD SEVERAL PROPOSALS TO THE CO-ORDINATING COMMITTEE, WITH SPECIAL EMPHASIS ON THE INTRODUCTION OF A SYSTEM OF INTERNAL TAX OF THE SAME TYPE AS THAT IN FORCE IN THE COMMUNITIES.

"WHILE WE CAN UNDERSTAND THAT IN A NUMBER OF COUNTRIES SUCH A SOLUTION WOULD RAISE DIFFICULTIES WE ARE TOTALLY OPPOSED TO ANYTHING LESS THAN FULL

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COMPENSATION FOR TAXES LEVIED ON PENSIONS. EVEN FULL COMPEHSATION WOULD RESULT IN PUTTING RETIRED STAFF IN A LESS FAVOURABLE POSITION THAN DURING THEIR ACTIVE SERVICE UNLESS SPECIAL CONSIDERATION IS GIVEN TO ANY ADDITIONAL PENSIONS OR OTHER INCOME WHICH THEY THEMSELVES OR THEIR SPOUSES MIGHT HAVE. AND INDEED THE PROBLEM OF A SECOND INCOME IS ONE THAT CANNOT BE LOST SIGHT OF AND SHOULD BE TAKEN INTO ACCOUNT IN ANY COMPENSATION SYSTEM THAT MIGHT HAVE TO BE SET UP.

"THIS WHOLE PROBLEM IS OF SUCH VITAL IMPORTANCE THAT I WISH TO TAKE IT UP WITH HEADS OF DELEGATIONS AND I PROPOSE TO DO SO ON TUESDAY 11TH JUNE. THIS MEETING COULD ALSO BE THE OCCASION FOR A FIRST EXCHANGE OF VIEWS ON THE REPORT BY THE COUNCIL WORKING PARTY ON STAFF POLICY (C(74)102) ON THE ESTABLISHMENT OF A PENSION

SCHEME FOR THE CO-ORDINATED ORGANISATIONS. THERE ARE
IN THIS REPORT A NUMBER OF POINTS ON WHICH I WOULD LIKE
TO COMMENT.

"I SINCERELY HOPE THAT HEADS OF DELEGATION WILL
FIND THEMSELVES IN A POSITION TO ENDORSE THESE VIEWS
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SO THAT THE CO-ORDINATING COMMITTEE CAN BE INFORMED
ACCORDINGLY BEFORE IT CONCLUDES ITS WORK.

"ACCEPT, SIR, THE ASSURANCES OF MY HIGHEST
CONSIDERATION. E. VAN LEHNEP"

LETTER WITH ATTACHMENT FORWARDED TO EUR/RPE JUNE 5.
BROWN

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